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C O N F I D E N T I A L SECTION 01 OF 02 KABUL 003975

SENSITIVE
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DEPT FOR S/SRAP AND SCA/A
TREASURY FOR LMC DONALD, MNUGENT, JCASAL, AFKIFAYAT

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TAGS: [EFIN](#) [EAID](#) [ETRD](#) [PGOV](#) [PREL](#) [EAGR](#) [PTER](#) [AF](#)
SUBJECT: FINANCE MINISTER PUSHES ECONOMIC AGENDA FOR LONDON
CONFERENCE

CLASSIFIED BY: CDDEA AMBASSADOR E. ANTHONY WAYNE FOR REASONS FOR 1.4
(b) AND (d).

REF: (A) KABUL 3819; (B) KABUL 3789

¶1. (C) Summary: In a December 7 meeting with Coordinating Director for Development and Economic Affairs Ambassador Wayne, Finance Minister Zakhilwal discussed his goals for the Joint Coordination and Monitoring Board (JCMB) to be held in mid-January and the 28 January London Conference, emphasizing that the agenda for both meetings should be led by Afghans. While the London Conference will have a focus on security, Minister Zakhilwal called for economic and development issues to be included in the agenda. The Minister also outlined his plans for a rapid and targeted reform package aimed at increasing revenue, improving service delivery, and reducing corruption. Zakhilwal agreed that the appointment to a new Afghan Commerce Minister before the next round (19-21 December) would complicate conclusion of the Afghanistan-Pakistan Transit Trade Agreement. On contractor abuse of tax exemptions, Minister Zakhilwal said he has instructed his revenue collecting office not to disrupt shipments of key companies supporting ISAF but to continue to collect information and to try to work out problems. The Minister expressed support for a total ban on ammonium nitrate. End Summary.

LONDON CONFERENCE TO INCLUDE ECONOMIC ISSUES

¶2. (C) Minister Zakhilwal told Ambassador Wayne that he is working with the Ministries of Foreign Affairs, Defense, and Interior to develop a GIROA-led agenda for the London Conference. While the initial UK agenda focused on security, GIROA is pushing to include economic development and governance issues, he said. Minister Zakhilwal outlined four issues he would like to discuss at the next JCMB and London Conference. These include:

--(C) 1) Improving GIROA development coordination: Minister Zakhilwal will advance the existing proposal to create "clusters" of ministries, or "Super-ministries," to improve inter-agency coordination. Potential ministry clusters include Agriculture, Finance, and Governance. In a separate conversation, Agricultural Minister Rahimi told Wayne that there could be a separate Rule of Law cluster and one on security.

--(C) 2) Addressing GIROA capacity to "deliver development": The Minister has established a team of Afghan analysts to conduct a study of the 10 ministries responsible for 90% of development budget expenditures. The team will work on determining to what extent slow delivery of services is due to a lack of coordination among donors and what is due to inefficiencies, corruptions, etc. He stressed that improving the ability of GIROA to deliver services and projects will increase the confidence of donors to put more funds through the development budget.

--(C) 3) Using Civilian Technical Assistance Plan (CTAP) to hire advisors: Minister Zakhilwal will reiterate GIROA's desire to use

CTAP funds to finance high-priority Technical Assistance positions. The CTAP plan would fund GIROA to hire directly regional, qualified advisors from neighboring countries with appropriate language skills. He and Wayne noted that so far only the U.S. has put money toward the program. (Note: The USG intends to support the latest versions of the Ministry of Finance's CTAP by transferring \$30 million over two years directly to the Ministry. Other countries have pledged funds, such as U.K., Canada, but not yet delivered. End Note)

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negotiations is set for December 19-21 in Islamabad. Minister Zakhilwal agreed that losing lead GIROA negotiators would present difficulties but did not indicate whether he thought Shahrani would stay on as Minister of Commerce. (Separately, we have heard Shahrani will stay on, Septel.)

LIMITED TAX EXEMPTIONS ON FOREIGN FIRMS
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15. (C) Ambassador Wayne addressed Minister Zakhilwal's concerns raised in previous meetings that large international contractors hired by U.S. and ISAF have sought unwarranted and excessive tax exemptions. Zakhilwal stated that he believes many shipping contractors are not reporting sales from non-assistance-related activities, thereby exploiting their tax-exempt status, and mentioned Supreme, Global Logistics, and FedEx, in particular. He also cited the interception of a Global Logistics shipment of expensive mobile phones brought into Afghanistan for sale on the black market. Ambassador Wayne reassured the Minister that ISAF is focused on this issue at the top levels and is treating GIROA concerns with urgency. ISAF is aware of the concerns and is working directly with GIROA, particularly the Attorney General's office, on a solution. Minister Zakhilwal noted that he has instructed his revenue collecting office not to disrupt ISAF shipments but to continue to collect information and to look for opportunities to work out problems.

SUPPORT FOR TOTAL BAN ON AMMONIUM NITRATE FERTILIZER
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16. (C) Minister Zakhilwal said he would strongly support a total ban on ammonium nitrate fertilizers in Afghanistan (the core ingredient of improvised explosive devices), were one to be issued, adding that he would soon review a Draft Inter-Ministry Paper calling for such a step. Note: Finance oversees Customs which will be essential in enforcing an import ban.

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